Commonwealth of Kentucky
Public Protection Cabinet
Department of Financial Institutions

Morgan Keegan Q & A

Question:
What action has the Kentucky Department of Financial Institutions (DFI) taken against Morgan Keegan?

Answer:
Kentucky DFI, along with Alabama, Mississippi, South Carolina, Tennessee, the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) reached a multi-state settlement and entry of consent orders with Morgan Keegan & Company (MKC) and Morgan Asset Management (MAM) and certain employees. More details are online at www.kfi.ky.gov/public/morgankeegan.htm.

Question:
Why has DFI brought an administrative action against Morgan Keegan & Company and Morgan Asset Management?

Answer:
DFI is the administrator of securities for the Commonwealth of Kentucky. We are charged with registering broker-dealers and investment advisers in the state and making sure that they comply with the Kentucky Securities Act (KRS Chapter 292). Morgan Keegan & Company is a registered broker-dealer. Morgan Asset Management is a registered investment adviser. Our agency initiated administrative action against both companies because we believe they have failed to conduct their businesses as required by state law.

The specific allegations include:
- Made material omissions and misrepresentations in marketing materials,
- Made material omissions and misrepresentations in regulatory filings,
- Withheld information from and misrepresented information concerning the funds to the Morgan Keegan Sales force,
- Provided preferential treatment to certain customers,
- Failed to make suitable recommendations concerning purchase and concentration of the funds in customer accounts,
- Failed to adequately supervise their employees, and
- Obstructed the due diligence process.

Question:
What funds are involved?

Answer:
Seven proprietary mutual funds are at issue:
Regions Morgan Keegan Select Intermediate Bond Fund (MKIBX)
Regions Morgan Keegan Select High Income Fund (MKHIX)
Regions Morgan Keegan Advantage Income Fund (RMA)
Regions Morgan Keegan High Income Fund (RMH)
Regions Morgan Keegan Multi-Sector High Income Fund (RHY)
Regions Morgan Keegan Strategic Income Fund (RSF)
Regions Morgan Keegan Short-Term Bond Fund

Question:
How many customers are affected?

Answer:
The mutual funds at issue lost approximately $1.5 billion from March 31, 2007, to March 31, 2008, affecting approximately 30,000 account holders.

Question:
How many Kentucky investors were involved?

Answer:
More than 2,000 Kentucky investors sustained about $50 million in losses. About $11 million in restitution will be paid to Kentucky investors.

Question:
Will Morgan Keegan customers recover their lost investments?

Answer:
Investors will recoup some of their losses. They also can pursue arbitration at any time on their own to attempt to recover additional funds.

Question:
How do investors get their money back?

Answer:
First the state regulators will establish the States' Fund that will be used for disbursing the restitution. A qualified fund administrator will be selected and charged with notifying investors, who must file a claim in order to receive restitution.

Question:
Can Morgan Keegan and Morgan Asset Management continue to operate?

Answer:
Yes, both companies are allowed to operate in Kentucky as long as they maintain current registration and follow the stipulations in the consent order.

Question:
How many Morgan Keegan branches operate in Kentucky?

Answer:
Morgan Keegan has branches in the following Kentucky cities:
Louisville
Lexington
Covington
Mayfield
Paducah
Murray
Franklin

Question:
Why did DFI enter the consent orders jointly with the states of Alabama, Mississippi, South Carolina and Tennessee, along with the SEC and FINRA?

Answer:
All state securities regulators are members of the North American Securities Administrators Association. Because of this relationship, state regulators often collaborate on investigations and examinations. This allows state regulators to combine forces and share resources and talent. It also streamlines the process for the entities being investigated and prosecuted. Instead of responding to duplicative state investigations, they can respond to one combined investigation. Further, they can resolve any allegations of violations of state securities laws in one proceeding.

DFI
Department of Financial Institutions
SECURITIES DIVISION
1025 Capital Center Drive, Suite 200
Frankfort, KY 40601
502-573-3390
800-223-2579
www.kfi.ky.gov